City of Lafayette Staff Report

For:	Lafayette City Council
By:	Steven Falk, Lafayette City Manager
Date Written:	June 16, 2008
Meeting Date:	June 23, 2008
Subject:	Presentation of Results of 2008 Voter Attitude Survey

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Godbe Research was retained this spring to conduct a voter attitude survey for Lafayette. The firm has completed its work and will present its results to the Council your meeting on June 23rd.

In summary, Godbe has found that a sales tax measure is rather well received by Lafayette voters, with 59% indicating support even after hearing the arguments against. With a margin of error of 5.6%, the results suggest that the City might be poised to pass such a measure. A 1% sales tax increment would generate an additional $2.5M annually.

The utility user's tax, on the other hand, is not embraced by voters, with only 30% supporting after hearing arguments against.

Given these findings, staff has prepared the attached Sales Tax Fact sheet which describes the history and various aspects of the sales tax in California.

Recommendation
Discuss and direct staff.

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City of Lafayette
Sales Tax Fact Sheet

Introduction

The Transactions and Use Tax Law was adopted by California in 1969 authorizing the adoption of local "transactions and use tax" add-ons to the combined state and local sales tax rate. Over the years the law was amended to provide specific authorizations for various particular cities, counties, special districts and countywide authorities. Prior to 2003, the most common transactions and use tax measures were those for specific countywide needs, most commonly transportation. But since a 2003 change in the law, add-on taxes by cities and some counties for general purposes have become more frequent and popular. Sixty two California cities now impose a transactions and use tax.

"Transactions and Use Tax" Versus "Sales and Use Tax"

Under California law, transactions and use taxes may be approved locally and added to the combined state and local sales and use tax rate. The statewide sales and use tax, currently at 7.25%, includes portions that go to the state general fund, to several specific state funds including some for local allocation and use, and to the cities and counties essentially based on the location of the purchase.

Transactions and Use Taxes generally apply to merchandise that is delivered in a jurisdiction which imposes such a tax. In practice the tax application and allocation for most retail sales will not differ from the sales and use tax. But there are some differences. Importantly, in the case of a sale or lease of a vehicle, vessel, or aircraft, a transactions and use tax is charged and *allocated based on the location in which the property will be registered.* So if the city Jane lives in has a 9% transactions and use tax, she will pay that 9% tax if she purchases a car, even if she makes the purchase in a neighboring county that has no transactions and use tax. If Jane purchases a stuffed animal in that neighboring county, she would not pay any transactions and use tax, but if she buys the stuffed animal in her city she would pay 9%.

Likewise, if a carpet salesperson from Walnut Creek travels to Lafayette to take an order for installation, he would be considered to be engaged in business in Lafayette. The tax would be computed at the Lafayette rate, and the taxes paid would be returned to Lafayette. Thus, even if the sales tax rate were higher in Lafayette, there would be no advantage for a Lafayette resident needing a new wall-to-wall installation to buy from vendors located in neighboring cities. This is not true, of course, for walk up customers looking for an area rug.

Here's the link to the State Board of Equalization on this issue:
http://www.boe.ca.gov/pdf/pub105.pdf

In 2003, Governor Gray Davis signed SB566 which gave every county and every city the ability to seek voter approval of a local transactions and use tax increase under the following conditions:

- the transactions and use tax may be imposed at a rate of 0.25% or a multiple thereof,
- the ordinance proposing the tax must be approved by a two-thirds vote of all members of the governing body,
- if for general purposes, the tax must be approved my a majority vote of the voters in the city or county,
- if for specific purposes, the tax must be approved by a two-thirds vote of the voters in the city or county, and
- the maximum combined rate of transactions and use taxes in any location may not exceed 2%.

Since the passage SB566 in 2003, the transactions and use tax, particularly when structured as a majority vote tax for general purposes, has become popular and successful revenue raising tool for cities. In just the last few years, the number of approved city transactions and use taxes has more than tripled.

Sixty ~~two~~ California cities now impose a transactions and use tax. Cities that passed new sales taxes in this month's elections are San Juan Bautista (1-1/4%), South Gate (1%), Pacific Grove (1%), Pismo Beach (1/2%), and Mammoth Lakes (1/2%).

Table A, below, describes all of the voter approved transaction and use taxes in California.

Table A
Transaction and Use Taxes in California

Arroyo Grande	0.50	Reedley	0.50
Avalon	0.50	Richmond	0.50
Capitola	0.25	Salinas	0.50
Ceres	0.50	San Juan Bautista	1.25
Clovis	0.30	San Luis Obispo	0.50
Davis	0.50	Sand City	0.50
Del Rey Oaks	1.00	Sanger	0.75
Delano	1.00	SanRafael	0.50
Dinuba	0.75	Santa Cruz	0.50
El Cerrito	0.50	Santa Rosa	0.25
ElCajon	0.50	SantaCruz	0.25
Farmersville	0.50	ScottsValley	0.50
Fort Bragg	0.50	Seaside	1.00
Grover Beach	0.50	Sebastopol	0.13
Inglewood	0.50	Selma	0.50
Laguna Beach	0.50	Sonora	0.50
Lakeport	0.50	South Gate	1.00
LosBanos	0.50	South Lake Tahoe	0.50
Mammoth Lakes	0.50	Stockton	0.50
Manteca	0.50	Truckee	0.50
Merced	0.50	Tulare	0.50
Montclair	0.25	Visalia	0.25
Morro Bay	0.50	Vista	0.50
National City	1.00	W.Sacramento	0.50
NevadaCity	0.50	Waterford	0.50
Pacific Grove	1.00	Watsonville	0.25
Pinole	0.50	Wiliams	0.50
Pismo Beach	0.50	Willits	0.50
Placerville	0.25	Woodlake	0.50
Point Arena	0.50	Woodland	0.50
Porterville	0.50		

Sales Taxes in Lafayette

Lafayette does not currently collect additional sales taxes beyond those directed to the City by the State. Buyers in Lafayette pay an 8.25% sales and use tax rate, with the Lafayette receiving 1.0% and the other 7.25% diverted to other government agencies and uses. Thus, for every $100 purchase made in Lafayette, the City receives $1.

Total sales tax receipts for Lafayette for the last several years are as follows:

2002/3	2003/4	2004/5	2005/6	2006/7
$2,255,221	$2,316,883	$2,614,419	$2,513,865	$2,621,785

Given these figures, for discussion purposes, it may be fair to suggest that a 1% sales tax increment would deliver $2.5M in new revenue to Lafayette.